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UNCLAS BANGKOK 004780

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SENSITIVE

TREASURY FOR OASIA
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SUBJECT: CHINA REVALUES; THAI BUSINESS SHRUGS

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1.(U) In response to the July 21 revaluation of the Chinese Yuan, and following a July 22 Thai bank holiday, the Thai Baht appreciated against the US\$ by about 1.6 percent, from an average interday rate of 42.09/US\$ on July 20 to 41.38/US\$ on July 26. Similarly the Stock Exchange of Thailand (SET) index closed at 650.04 on July 20 and gained 9.6 points (1.5 percent) by the close on July 25.

2. (SBU) On July 26 both the Baht and SET weakened in the wake of profit taking and more careful consideration of the near-term effects of the Chinese move. We have spoken with more than forty companies, bankers and academics and while most acknowledge that the revaluation is a step in the right direction, they believe it is too soon to tell how much the Yuan will actually be allowed to appreciate and over what time frame. One Thai banker argued that the Chinese move is simply "an effort to get the U.S. off their backs" and that "nothing practical will change for some time." Another said that he expects no further Yuan appreciation for "at least six months" while the Chinese consider the effects of the initial action. All believe that a 2.1 percent appreciation, netting to about 1 percent when considering the appreciation of regional currencies against the US\$, is far too small to have any impact on Thai trade. None of the companies with whom we spoke plan any changes or expect any particular impact on their business. The only strongly positive reaction was from a Thai Airways official who voiced hope that as the Yuan continues to strengthen, more Chinese tourists will visit Thailand and company operations in China will grow more profitable due to positive currency translation.

3. (SBU) Both private and Bank of Thailand analysts agree that the timing and method of the revaluation was designed to minimize the effect of the currency move. They point to the action taking place in mid-summer, when currency trading is slower, at a period when the US\$ was appreciating and the outlook was for continued Federal Reserve interest rate increases and positive US economic growth; all factors supporting continued strength in the greenback. Relative to the Baht, most local currency traders argue that the revaluation broke the downward momentum of the Baht but that, unless there is further Yuan appreciation in the next month or two, the Baht's movements will again be determined largely by Thai macroeconomic conditions. In any case, none felt that the Baht would soon break the Bt40/US\$ level last seen in May.

4. (SBU) On the other hand, RTG officials are using the revaluation of the Chinese Yuan to talk up prospects for the Thai economy in a bid to counteract increasing negative business and consumer sentiment over the near term economic outlook. Following a July 22 meeting of the Ministers of Finance and Commerce and the Governor of the Bank of Thailand, Finance Minister Somkid told the press "the Baht has strengthened less than the Yuan, so it will benefit Thai exports." Central Bank Governor Pridyathorn said the revaluation will make it "easier to implement our monetary policy since the Chinese chose a managed float system." Commerce Minister Thanong noted that the one percent appreciation of the Baht against the US\$ on July 22 was less than the appreciation of other regional currencies that day and was therefore a positive indicator for Thai exporters.

5. (SBU) Comment: The general attitude in Thailand's private sector is that the Yuan needs to appreciate at least another 10 percent before Thai companies realize any advantage against their Chinese competitors. They believe such appreciation is unlikely any time soon since they ascribe the July 21 action to a political rather than an economic decision by the Chinese authorities and expect that further Yuan appreciation will again be modest and based more on politics than economics.

BOYCE